Imasco Limited Annual Report 1971

Notice of Annual General Meeting

The Annual General Meeting of the shareholders of Imasco Limited will be held at the Head Office of the Company, 4 Westmount Square, Montreal 216, Quebec, Canada, at 10:30 a.m., on Wednesday, April 14, 1971, for the transaction of the following business:

1. To receive and consider the report of the Directors, including the financial statements of the Company and the report of the Company's Auditors;

2. To elect Directors for the ensuing year;

3. To appoint Auditors for the ensuing year and authorize the Directors to fix their remuneration;

4. To transact such other business as may properly come before the meeting.

In accordance with the By-laws of the Company, the Directors have chosen Friday, April 2, 1971, as the record date for the determination of shareholders entitled to notice of this annual general meeting.

Montreal, February 25, 1971

Norman J. Flynn

Norman J. Flynn, Secretary

Information

This statement is furnished in connection with the solicitation of proxies by the management of Imasco Limited (hereinafter sometimes called the "Company") for use at the Annual General Meeting.

If you are unable to attend this meeting in person, please sign and return the enclosed proxy form in the envelope provided.

Voting shares and principal owners thereof

The Company has, issued and outstanding, 9,670,532 voting common shares without nominal or par value and 1,191,888 6% cumulative preference shares. The holders of the 6% cumulative preference shares have no right to attend or vote at meetings, unless the dividend upon the shares is, and so long as it is, one month in arrear, or the meeting is convened for increasing or reducing the capital, or winding up or sanctioning the sale of the undertaking, or altering the regulations of the Company. Each share registered in a shareholder's name on the date of the meeting entitles him to one vote. As at February 25, 1971, British American Tobacco Company Limited beneficially owned 4,275,604 common shares representing 44% of the outstanding voting common shares of the Company and 275,080 6% cumulative preference shares, of the par value of $4.86⅔ each, representing 23% of the outstanding 6% cumulative preference shares of the Company, and Tobacco Securities Trust Company Limited beneficially owned 1,382,000 common shares of the Company representing 14% of the outstanding voting common shares. To the knowledge of the Directors and senior officers of the Company, no other person, as at February 25, 1971, beneficially owned, directly or indirectly, more than 10% of the outstanding common shares or of the outstanding 6% cumulative preference shares of the Company.

Voting of proxies

A shareholder may appoint a person other than the persons designated in the enclosed proxy form to attend and vote for him at the meeting. To exercise this right, the shareholder should write the name of the desired person in the blank space provided in the proxy and strike out the other names, or submit another appropriate proxy. The shares represented by the proxy will be voted. The proxy will not be used to vote upon the Company's financial statements for the year ended December 31, 1970, and the reports of the Directors and Auditors. A shareholder may revoke his proxy at any time by instrument in writing executed by the shareholder or by his attorney authorized in writing or, if a shareholder is a corporation, under its corporate seal or by an officer or attorney duly authorized, and deposited either at the Head Office of the Company at any time up to and including the last business day preceding the day of the meeting, or any adjournment thereof, at which the proxy is to be used or with the Chairman of such meeting on the day of the meeting, or adjournment thereof.

Election of Directors

The persons named in the enclosed proxy form intend to vote for the election of the following nominees as Directors, all of whom are full-time employees of the Company and have served as Directors since their election:

William H. Booth
Vice-President. Has been Vice-President, Personnel Administration for the past six months, Vice-President, Finance from 1966 to 1970, and a senior official in the Finance Division for a period in excess of the two preceding years. First became a Director in 1966. Beneficially owns 800 common shares.

Bernard Dansereau, Q.C.
Vice-President and General Counsel. Has been General Counsel since 1963 and was Secretary from 1966 to 1968. First

became a Director in 1964. Beneficially owns 500 common shares.

John M. Keith
Chairman of the Board. Has been Chairman since April 1969 and was President for a period in excess of the four preceding years. First became a Director in 1947. Beneficially owns 1,001 common shares and one preference share.

Ian W. Murray
Vice-President. Was Vice-President, Marketing, Imperial Tobacco Products Limited during 1969 and 1970 and before joining the Company in 1968 was Vice-President and General Manager and a senior partner of McConnell Eastman Limited. First became a Director in 1970. Beneficially owns 50 common shares.

Paul Paré
President. Has been President since April 1969, Executive Vice-President in 1967 and 1968 and Vice-President, Marketing in the two preceding years. First became a Director in 1964. Beneficially owns 475 common shares.

L. Edmond Ricard
Vice-President. Has been Vice-President and General Manager, Imperial Tobacco Products Limited since January 1969 and was a senior official in the Marketing Division for a period in excess of the three preceding years. First became a Director in 1969. Beneficially owns 50 common shares.

George G. Ross, C.A.
Vice-President. Has been Vice-President, Finance, for six months, Vice-President of Planning and Development for a year and Comptroller for the preceding two and one half years. Formerly Chief Accountant of Iron Ore Company of Canada. First became a Director in 1969. Beneficially owns 100 common shares.

John J. Ruffo
Vice-President. Has been President of United Cigar Stores, Limited since March 1969 and was previously engaged in the Company's diversification program. First became a Director in 1970. Beneficially owns 60 common shares.

John F. Taormina
Vice-President. Has been Vice-President and General Manager, Imasco Foods Corporation (formerly Innotron Enterprises Inc.) since August 1970, is President, Progresso Foods Corp., and previously President, S and W Fine Foods, Inc. and Vice-President Progresso Foods Corp. First became a Director in 1970. Beneficially owns 200 common shares.

Clifford Warren
Vice-President. Has been a senior official in the Manufacturing Division for a period in excess of five years. First became a Director in 1969. Beneficially owns 50 common shares.

The term of office for each Director is from the date of the meeting at which he is elected until the next annual general meeting or until a successor is elected or appointed. In the event that any vacancy occurs in the list of nominees, it is intended that discretionary authority shall be granted to vote the proxy for the election of any other nominee.

Remuneration of Directors and others

The aggregate direct remuneration paid or payable by the Company or its consolidated subsidiaries to the Directors and senior officers of the Company during the financial year ended December 31, 1970, amounted to $998,000. The estimated aggregate cost to the Company or its subsidiaries in the said financial year of all pension benefits to be paid under the Company's retirement plans to senior officers of the Company and to the Directors who participate in such plans in the event of retirement at normal retirement age, was $86,000.

Included in the aggregate direct remuneration paid or payable by the Company to the Directors and senior officers of the Company for 1970 is a payment of $227,000 to Trustees under an incentive plan for the benefit of employee Directors. The Trust Fund is retained until the retirement of a Director and is forfeited, in whole or in part, depending on the circumstances, should the Director leave the Company to take alternative employment.

Appointment of Auditors

The proxies hereby solicited will be used to reappoint Deloitte, Haskins and Sells, the present auditors, as auditors of the Company to hold office until the next annual general meeting of shareholders, and to authorize the Directors to fix their remuneration.

Other Matters

The management knows of no matters to come before the meeting of shareholders other than those referred to in the notice of meeting. Should any other matters properly come before the meeting, the proxy will be voted on them in accordance with the best judgment of the person voting the proxy.

The undersigned hereby certifies that the information given in this proxy information circular is true and complete in every respect to the best of my knowledge and belief.

Montreal, February 25, 1971

Norman J. Flynn

Norman J. Flynn, Secretary

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Si vous désirez recevoir ce rapport annuel en français, veuillez vous adresser au:

Secrétaire
Imasco Limitée
4, square Westmount
Montréal 216, Canada

Imasco Limited is a multi-divisional company manufacturing consumer products and supplying consumer services in Canada and the United States. Principal products are tobacco, food and wine. Services include retail outlets, automatic vending operations, and television production facilities.

Directors
William H. Booth
Bernard Dansereau, Q.C.
Ian W. Murray
Paul Paré
L. Edmond Ricard
George G. Ross, C.A.
John J. Ruffo
John F. Taormina
Clifford Warren

Officers
Paul Paré, President
William H. Booth, Vice-President
Norman A. Dann, Vice-President
Bernard Dansereau, Q.C., Vice-President and General Counsel
Ian W. Murray, Vice-President
Gilles H. Paquette, Vice-President
L. Edmond Ricard, Vice-President
George G. Ross, C.A., Vice-President
John J. Ruffo, Vice-President
Robert T. Ruggles, Vice-President
John F. Taormina, Vice-President
Clifford Warren, Vice-President
Norman J. Flynn, Secretary
Matthews Glezos, Treasurer
Ronald F. Findlay, C.A., Corporate Comptroller
Gérald L. Bazinet, Assistant Secretary
John N. Economides, Assistant Treasurer

Companies' Locations

Imasco Limited
■ Head office

Imperial Tobacco Products Limited
■ Head office
◆ Sales office
▲ Plant
▼ Leaf processing plant
● Warehouse

Imasco Foods Corporation
■ Head office

S and W Fine Foods, Inc.
■ Head office
◆ Sales office
▲ Plant
● Warehouse

Progresso Foods Corp.
■ Head office
◆ Sales office
▲ Plant
✸ Olive oil packing
● Warehouse

Pasquale Bros. Limited
■ Head office
◆ Sales office
▲ Plant
✸ Olive oil packing
● Warehouse

United Cigar Stores, Limited
■ Head office
◆ Sales office
● Warehouse

Growers' Wine Company Limited
■ Head office
◆ Sales office
▲ Plant

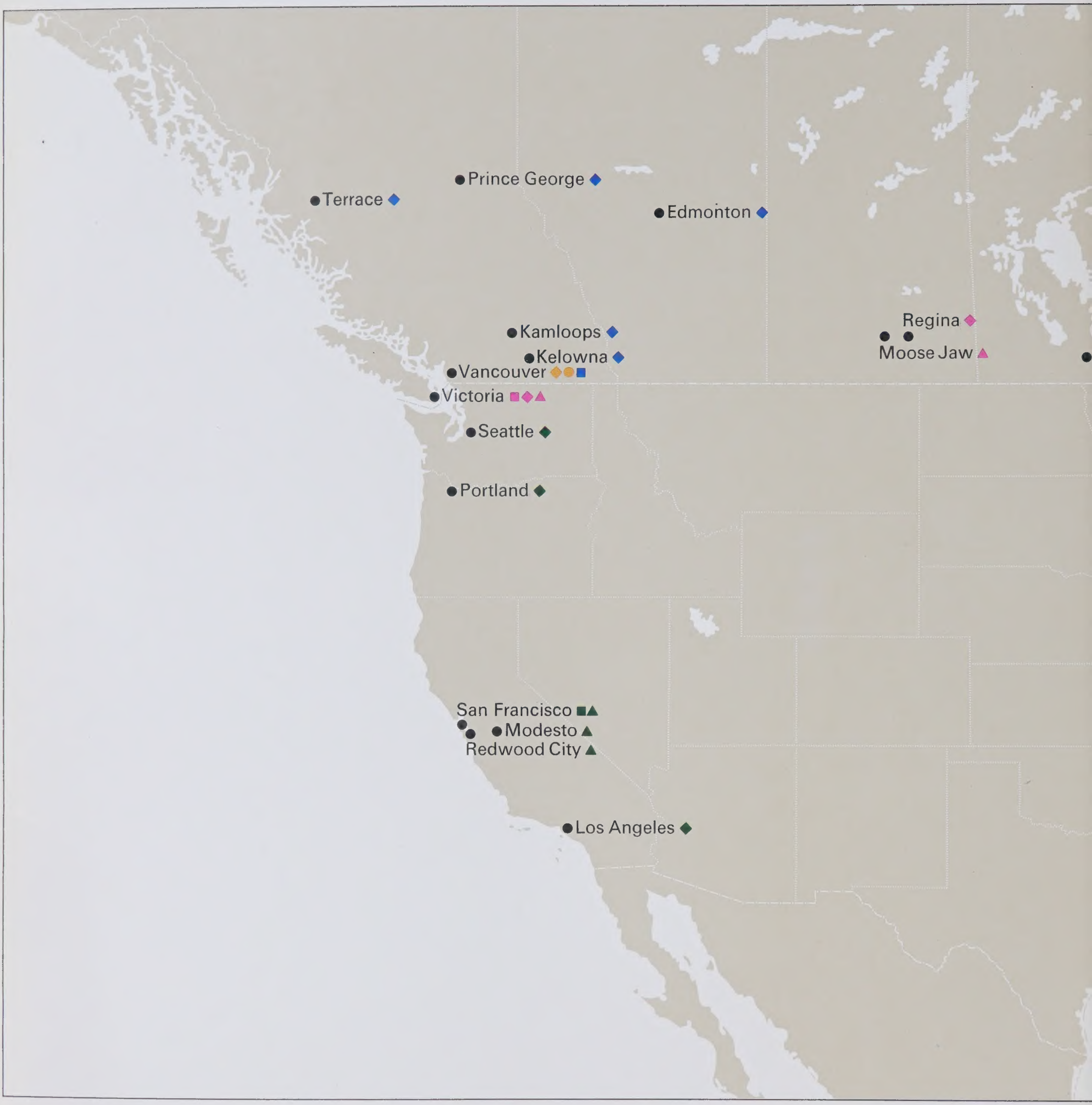
Amco Services (Canada) Ltd.
■ Head office
◆ Sales office

Editel Productions Ltd.
Simtel Incorporated
■ Head office
◆ Sales office

The Year at a Glance

	1971	1970	Increase (Decrease)
			Thousands of dollars
Sales	569,629	582,163	(12,534)
Net earnings before extraordinary items	17,661	15,691	1,970
Net earnings after extraordinary items	17,539	15,691	1,848
Earned per common share before extraordinary items	1.79	1.59	0.20
Dividends per common share	1.00	0.80	0.20
Working capital	105,343	99,087	6,256
Total assets	243,229	243,151	78
Shareholders' equity	131,556	127,031	4,525

◄ Unfold


Terrace
Prince George
Edmonton
Regina
Moose Jaw
Kamloops
Kelowna
Vancouver
Victoria
Seattle
Portland
San Francisco
Modesto
Redwood City
Los Angeles

ipeg
St. John's
Quebec
Joliette
Moncton
Montreal
London
Guelph
Toronto
Delhi
Liverpool
Aylmer
Boston
Chicago
Dearborn
New York
Jersey City
Vineland
St. Louis
New Orleans
Castleberry

To our Shareholders

Earnings for the year have shown a satisfactory increase over 1970. Most of the increase comes from the tobacco division. Increased earnings have also been shown by United Cigar Stores, Limited and Growers' Wine Company Limited.

Pasquale Bros. Limited in Canada also showed improvement, but results of the food operations in the US were disappointing.

Sales for the year were $569,629,000, a decrease of two per cent from 1970. Net earnings before extraordinary items were $17,661,000, equal to $1.79 a share compared with $1.59 in 1970.

Dividends declared, including an extra of 10 cents declared December 20, 1971, totalled $1.00 a common share. We have adopted a new dividend policy under which any extra dividend is declared in the year in which it is earned and interim payments will be increased if earnings warrant it. Our first interim dividend, payable March 30, 1972, has been increased from 17½ cents to 22½ cents.

In June, the federal government tabled Bill C-248, "An act respecting the promotion and sale of cigarettes", but the bill did not go beyond first reading. In the ensuing climate of uncertainty, the industry adopted voluntary restrictions including the dropping of broadcast advertising as of January 1, 1972.

During the year, the British Columbia legislature adopted the "Tobacco Advertising Restraint Act" which came into force on September 1st. Imperial Tobacco Products Limited, in concert with other interested parties, is challenging the constitutionality of the law in the courts.

In February, the Company issued $35,000,000 8½% twenty year debentures, chiefly to replace bank loans of certain subsidiaries.

In November, we made an offer to buy all the outstanding shares of Growers' Wine Company Limited. The offer, which is being well received, closes March 17th.

Today's Consumer

The consumer products industry is going through a difficult time and faces an even more challenging future. Government concern about industry, spurred by "consumerism", has brought us to the point where it is no longer sufficient to make a good product. The product must be as good as the latest science and technology can make it, and socially acceptable as well.

The customer can no longer be defined simply as a person who buys something. He is the consumer as citizen, concerned about his health, his environment and society. He is both the "credulous man" to whom all advertising must be directed in clear and simple language, and he is the confirmed skeptic who wants proof that what he is buying is good for him and socially worthwhile. He is pressuring his government at all levels for stricter laws to regulate manufacturing and marketing and he is getting results.

Better consumer goods are always possible and a goal we all aim at. But the cost of perfection is high and the consumer must be prepared to pay for it.

We can look forward to more government regulatory bodies, the added cost of keeping them informed, more records keeping, and more frequent government inspection, particularly in the food industry.

Technology now has to be more closely associated with marketing in development of new products. And exhaustive research into the effects of ingredients, and obtaining government clearance for them, will delay the introduction of new products.

Closer cooperation between government agencies and industry will be needed to prevent such enormous losses as those occasioned by the banning of cyclamates from dietetic foods two years ago.

Legislation alone is not the answer. Cooperation among all concerned to achieve the best product, technologically sound and ethically marketed, will serve the consumer best in the long run.

Adherence to these principles has made us preeminent in the tobacco industry in Canada. Our experience in diversification into food and other enterprises has served to reinforce our conviction in the soundness of these principles as a guide to future growth.

Personnel

In February 1972, L. Edmond Ricard was appointed president of Imperial Tobacco Products Limited.

In June 1971, Robert T. Ruggles was appointed a vice-president, Imasco Limited.

John M. Keith, formerly president and later chairman, retired from the board of directors in June. In September 1972, Bernard Dansereau, Q.C., director, vice-president and general counsel, and William H. Booth, director and vice-president, personnel administration, will retire. Gilles H. Paquette, also a vice-president in personnel, will retire in August. These officers have devoted their talents over many years to the service of the Company.
On behalf of the Company and the shareholders I extend sincere thanks to them.

I should also like to express to all employees my sincere thanks for their contributions to the growth and prosperity of the Company in 1971.

On behalf of the board of directors,

President
Montreal, February 18, 1972

George G. Ross, vice-president, finance, and Paul Paré, president.

Imperial Tobacco's cigarette sales declined during the first nine months of the year, owing entirely to our withdrawal of incentives, but sales for the final quarter were up over the same period in 1970. While sales of former incentive brands such as Sweet Caporal and Peter Jackson declined, there was an encouraging upward trend in the sales of major trade marks such as Player's, du Maurier and Cameo.

The tobacco products market in Canada has been active in 1971. Cigarette prices were increased in January 1971, and unit sales of cigarettes for the industry were up two per cent over 1970. During the year, the industry introduced seven new brands of cigarettes, one new fine cut, ten new pipe tobaccos, and thirteen brands of cigars and cigarillos.

Imperial Tobacco launched a new cigarette, Millbank, during the last half of the year in London and Toronto, Ontario. Consumers' acceptance has been enthusiastic and Millbank will be extended to other regions in 1972.

Sales of cigars increased by approximately 13 per cent in Canada but General Cigar Company's sales were up 23 per cent. Colts, introduced in 1970, continued to gain in popularity in 1971 and the Old Port family remain Canada's favorite cigars.

The market for fine cut and pipe tobaccos remained relatively stable. Imperial introduced a new pipe tobacco in 1971, Borkum Riff. This tobacco is imported from Sweden and is gathering a popular following here.

Imperial Tobacco has long been a supporter of cultural and sports events and in 1971 sponsored its first Peter Jackson Canadian Open golf tournament at Richelieu Valley Golf and Country Club near Montreal as well as seven provincial opens across Canada. These events drew top name golfers from the US and Canada and the largest crowd of spectators in the history of the Canadian Open. Player's, which was responsible for bringing Canada into international motor sport, continued to support Canada's premier race event, the Player's Grand Prix, and Trans Am and Formula 'B' events across the country.

du Maurier has been supporting musical and theatrical events since 1965 and in 1971 expanded this support with the formation of the du Maurier Council for the Performing Arts. Headed by Senator Donald Cameron, who was for many years director of the Banff School of Fine Arts, the Council will operate independently and award grants over five years from a fund of $1,000,000 set up by Imperial Tobacco to performing groups in Canada who meet the requirements.

The White Owl Conservation Award, a $10,000 prize and trophy given each year to the person or organization who has contributed most to conservation in Canada, went this year to Tony Lesauteur. Mr. Lesauteur is president of the Quebec Wildlife Federation, an authority on anti-pollution measures, and an organizer of conservation activities. Grants were also given to four other conservation groups during the year.

To hold the line on costs, production methods and facilities are being continually reviewed and modified. The phase-out of the Granby plant and the movement of production to Montreal plant will be completed in May 1972.

Our Delhi leaf processing plant will also be phased out over the next two years and production concentrated in the more modern and upgraded Aylmer plant.

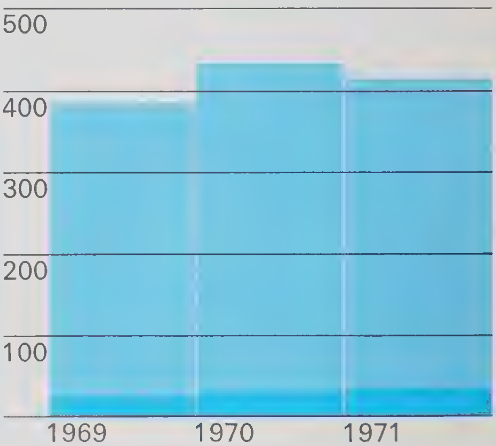
New labor contracts to be negotiated in the division in 1972 will undoubtedly result in higher costs.

In spite of acreage cuts in tobacco growing areas of Southern Ontario, crops continue to exceed demand. Growers have been cautioned that continued overproduction will lead to serious difficulty in the future in marketing the entire crop.

Leaf exports to Britain, now worth some $50,000,000 a year to Canadian growers, face an uncertain future as Britain moves towards the European Common Market. The Common External Tariff will eventually add some 15 cents a pound to Canadian leaf prices and the loss of the Commonwealth Preference will add another 19 cents a pound as compared with US tobacco.

The possible UK rapprochement with Rhodesia also has implications for the Canadian grower. Britain, before the Unilateral Declaration of Independance, bought some 33 per cent of its leaf from Rhodesia and can be expected to turn again to this source for some of its needs.

Sales and earnings from operations in millions of dollars



1 L. Edmond Ricard, president, Imperial Tobacco Products Division

2 The du Maurier Council for the Performing Arts: Isabelle Sauberli, executive secretary, André Bachand, director, Development Fund, University of Montreal, Dr. Pauline McGibbon, chancellor, University of Toronto, Senator Donald Cameron, Council chairman, Carl O. Nickle, chairman, Calgary Allied Arts Foundation, and Fred Davis, radio and television broadcaster

3 Borkum Riff pipe tobacco

4 Millbank cigarettes

5 Colts cigarillos

6 A happy Lee Trevino and wife Claudia accept the winner's trophy at the Peter Jackson Canadian Open golf tournament

For the food division, 1971 was a year of disappointments for the US companies but a good one for Pasquale Bros. Limited in Canada. Several factors, both internal and external, affected our US operations and combined to produce unsatisfactory results. Because of these developments, we do not expect improvements as early in 1972 as we had hoped.

At Progresso Foods Corp. the process of getting the new Vineland plant on stream has proved more complex than we had expected and much remains to be done. The change-over to new high-speed machinery from older equipment has also put a strain on personnel. However, training programmes have been introduced and productivity is improving noticeably.

Imported foods play an important rôle in Progresso's sales. An eight-week dock strike on the east coast and the 10 per cent surcharge combined with a price freeze depressed sales and earnings on these items.

All food imports to the United States now cost more because of the devaluation of the US dollar. This situation is being closely watched and alternative sources of supply will be developed if necessary.

Low profit margins on canned fruits and vegetables continue to affect the earnings of S and W Fine Foods, and the US price freeze cut further into this company's earnings.

S and W's export sales showed an impressive increase in spite of a long dock strike on the west coast. This strike also increased the cost of coffee beans which had to be imported through Vancouver, Canada. Coffee sales were additionally affected by a price war among the large producers on the west coast.

The northwest region of the United States has long been a high income area and one of S and W's strongest markets. But in the last two years, it has been suffering exceptionally high unemployment in the aircraft industry and S and W has felt the effects of the widespread reduction in purchasing power.

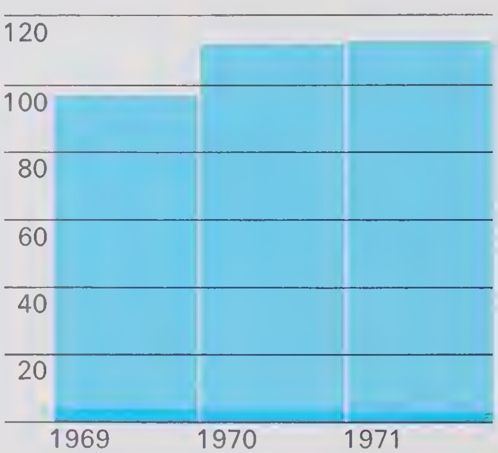
S and W's sales in the New York area are increasing, continuing a trend of several years.

Pasquale Bros. Limited increased sales of its Unico brand products. Tic Tac, a mint candy introduced in Canada by Pasquale Bros., has been an outstanding success. Tic Tac was also introducted in the US in late 1971 and shows every sign of becoming as popular there as it is in Canada.

Although the immediate results in the food operations are less than satisfactory, we have laid a solid base for improvement and expansion in this division. Food products is a highly competitive field in North America and no place to look for quick profits.

Our food companies are long-established and the products are respected by a loyal and increasing number of consumers. Improving our present products, developing new ones to meet the changing needs of consumers, and manufacturing them at the highest levels of modern food technology will assure a sound and profitable future for this division.

Sales and earnings from operations in millions of dollars



1 Clifford Warren, president, Imasco Food Division

2 Ted Pasquale, president, Pasquale Bros Limited and Chris Yaneff, designer, with new Unico label designs

3 Examining products at Progresso's Vineland plant are Bill Witzig, laboratory supervisor, and vice-presidents John V. Taormina and Bob Novak

4 S and W regional managers Dave Morton Con Knutson, Doug Ripley and Hale Seely look over new packaging

5 Tic Tac, the popular mint candy

This division, formerly called UCS after its principal company, was renamed late in the year in order to better describe its expanded operations and interests. The division now embraces retailing, wine, automatic vending and television production services.

Earnings of United Cigar Stores, Limited are up 25 per cent, continuing the trend of the last two years.

In May, United Cigar Stores branched into a new venture with the acquisition of Amco Services Limited, Vancouver, an automatic vending company. Subsequently, Amco acquired Advance Vending Limited, B.C., Link Vending Services Limited, Alberta, Karrys Vending Limited and Nathan Davis Vending Limited in Ontario and now, with some 2500 units, is one of the largest full-line automatic vending operations in Canada.

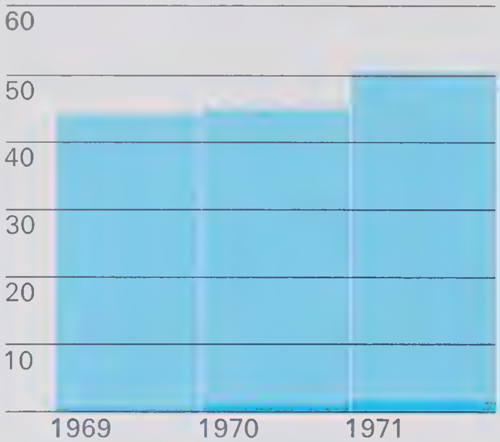
A US division of Imasco Associated Products has been organized to investigate and develop new business interests allied to food as well as other ventures. John F. Taormina was appointed president of this division in November.

In December, the division acquired the Canadian distributorship for the wines of Caves Aliança—Vinicola de Sanghalos, S.A.R.L., Portugal. Some of these wines are now sold in Ontario and additional lines and expanded distribution are planned for 1972.

Sales of Growers' Wine Company Limited also increased in 1971 and earnings were up 16 per cent over 1970.

Editel/Simtel increased its technical facilities in 1971. The company took delivery of its mobile production unit, "Supertruck", and refined the unique hand-held colour television camera. This camera has excited considerable interest in the US and Canada. The mobile unit and the camera, as well as other facilities, were employed by national television networks in both countries during the year.

Sales and earnings from operations in millions of dollars



1 John J. Ruffo, president, Imasco Associated Products Division

2 Helmut Dotti pours for Derek Haxell, president, and Paul Bergeron, regional manager at Grower's Wine's Moose Jaw winery

3 Hubert Wells, vice-president, United Cigar Stores, chats with Jenny Cook, manager of new 'zip unit' in shopping mall

4 Supertruck, Editel's mobile TV studio

5 Bob Switzer, vending manager, Dan Pitt vice-president, and Don Hoffman, president, Amco Services, visit a vending machine installation in Vancouver

Imperial Tobacco Products Division

Imperial Tobacco Products Limited
Montreal, Canada
Paul Paré, Chairman of the Board
L. Edmond Ricard, President
Peter R. Austin, Vice-President
E. Peter Gage, Vice-President
Robertson M. Gibb, Vice-President
D. Edward Kearney, Vice-President
Thomas R. Lamont, Vice-President
Jean-Louis Mercier, Vice-President and Comptroller
William J. Ross, Vice-President
Lorne A. Rowell, Vice-President
J. I. Leonard Storey, Vice-President
Douglas G. Myers, Secretary
Matthews Glezos, Treasurer
Gérald L. Bazinet, Assistant Secretary

General Cigar Company, Limited
Montreal, Canada
L. Edmond Ricard, President
E. Peter Gage, Vice-President
G. William Goring, Vice-President
D. Edward Kearney, Vice-President
André Laporte, Vice-President
Norman J. Flynn, Secretary
Matthews Glezos, Treasurer
Gérald L. Bazinet, Assistant Secretary

Imperial Leaf Tobacco Company of Canada Limited
Montreal, Canada
L. Edmond Ricard, President
E. Peter Gage, Vice-President
D. Edward Kearney, Vice-President
Norman J. Flynn, Secretary
Matthews Glezos, Treasurer
Gérald L. Bazinet, Assistant Secretary

Imasco Food Division

Imasco Foods Corporation
New York, U.S.A.
Clifford Warren, President
Gordon W. Fuller, Vice-President
Nicholas R. Marona, Vice-President
John F. Taormina, Vice-President
George J. Torggler, Vice-President, Secretary and Comptroller
Matthews Glezos, Treasurer
Gérald L. Bazinet, Assistant Secretary

Progresso Foods Corp.
Jersey City, U.S.A.
Frank G. Taormina, Chairman of the Board
Nicholas R. Marona, President
Edward Laraja, Vice-President
Robert W. Novak, Vice-President
F. John Simpson, Vice-President
John V. Taormina, Vice-President
George J. Torggler, Vice-President
Gasper Taormina, Vice-President, Secretary, Treasurer and Comptroller
Gérald L. Bazinet, Assistant Secretary
Matthews Glezos, Assistant Treasurer

S and W Fine Foods, Inc.
San Francisco, U.S.A.
Ian W. Murray, Chairman
Charles R. Angin, Vice-President
Norman L. Correia, Vice-President, Secretary and Comptroller
Robert M. Hrubesch, Vice-President
Matthews Glezos, Treasurer
Gérald L. Bazinet, Assistant Secretary
Alvin D. Thomas, Assistant Secretary

Pasquale Bros. Limited
Toronto, Canada
Edward C. Pasquale, Jr., President
Nito Pasquale, Vice-President
Mrs. Georgina Madott, Secretary/Treasurer
Gérald L. Bazinet, Assistant Secretary
Matthews Glezos, Assistant Treasurer

Imasco Associated Products Division

United Cigar Stores, Limited
Toronto, Canada
John J. Ruffo, President
J. Raymond Denis, Vice-President
Borden D. Joynt, Vice-President
Gordon H. Kelly, Vice-President
John F. Mathers, Vice-President and Treasurer
Vernon W. McWatters, Vice-President
Garfield G. Sherwood, Vice-President
Peter A. Thomson, Vice-President and Secretary
Frederick C. Van Parys, Vice-President
Hubert B. Wells, Vice-President
Bruce D. Williams, Vice-President
Gérald L. Bazinet, Assistant Secretary
Kenneth L. Murphy, Assistant Secretary

Growers' Wine Company Limited
Victoria, Canada
H. Derek Haxell, President and Chairman of the Board
Brian H. Roberts, Assistant to the President
A. Donald Lauder, Senior Vice-President
Brent A. Langley, Vice-President
Ronald M. Statham, C.G.A., Secretary/Treasurer

Amco Services (Canada) Ltd.
Vancouver, Canada
John J. Ruffo, Chairman of the Board
Donald R. Hoffman, President
Daniel P. Pitt, Vice-President
Robert Douglas Kerr, Secretary/Treasurer
Gérald L. Bazinet, Assistant Secretary
Peter A. Thomson, Assistant Secretary
John F. Mathers, Assistant Treasurer

Editel Productions Ltd
Simtel Incorporated
Montreal, Canada
A. John Douglas, President
G. Ross Jebson, Executive Vice-President
Joseph T. Coates, Secretary/Treasurer

Comments on the Year's Operations

Consolidated earnings

Consolidated sales for 1971 at $569,629,000 decreased $12,534,000 or 2%.

Owing to the industry's withdrawal from incentive brands in June 1970, the Imperial Tobacco Products Division's sales were down $17,200,000 or 4%.

Imasco Food Division sales showed a modest increase to $112,349,000.

The Imasco Associated Products Division showed increases in both the retail and wine businesses. Retail sales at $44,247,000 were up 12% largely owing to the inclusion of Amco Services and its subsidiaries from their dates of acquisition during 1971. Wine sales, up 10%, continue to reflect the growth of Growers' Wine Company Limited.

Earnings from operations at $37,441,000 were up $1,912,000. The increases occurred in tobacco operations, $3,145,000, retail operations $193,000 and wine operations $129,000. These increases were offset by a decrease of $139,000 in the food division, due to disappointing operations in the United States, and increases in general administration and non-recurring items of $720,000 and $696,000 respectively.

Non-recurring items shown in Note 2 to the financial statements amounting to $875,000 represent start-up costs in Progresso's new food processing plant.

Interest, at $3,847,000, decreased $763,000 as a result of lower borrowing levels during the year and lower interest rates.

Owing to the 1971 changes in income tax rates, the average tax rate declined about 1% which effectively increased 1971 net earnings by approximately $300,000.

Net earnings before extraordinary items at $17,661,000 were up $1,970,000 or 12.6% over the previous year. After making allowance for dividends on preferred shares, net earnings before extraordinary items amount to $1.79 a common share compared with $1.59 in 1970.

The extraordinary items listed in Note 3 of the financial statements are related to the reduction in the exchange differential between U.S. and Canadian currencies in the latter part of 1970. This gave rise to an exchange loss on the translation of the net current assets of U.S. subsidiaries which were acquired when the U.S. dollar was at a premium of approximately 8%, and a realized exchange gain on repayments of U.S. long term bank loans. Prior to the repayment of these loans in 1971 there was a net unrealized gain on foreign exchange. The repayment of these loans was made out of the proceeds of the $35,000,000 8½% debenture issue early in 1971.

Dividends

An extra dividend of 10 cents a share was declared December 20, 1971, and paid January 31, 1972, for a 1971 total of $1.00 a share.

A first interim dividend for 1972 of 22½ cents was declared payable March 30, 1972.

Consolidated retained earnings

Goodwill arising on the acquisition of certain subsidiaries during 1971 in the amount of $2,995,000 has been written off against retained earnings. The acquired subsidiaries are the companies comprising the automatic vending operations in the retail business and the additional holdings in Growers' Wine Company Limited acquired during the year which increased the investment in this company to 94.5% of the outstanding shares.

After the above goodwill adjustments, the declaration of common dividends totalling $9,671,000, or $1.00 a share, and allowance for dividends on the 6% cumulative preference shares of $348,000, consolidated retained earnings at $75,173,000 increased $4,525,000 from the 1970 figure of $70,648,000.

Balance sheet

Working capital at $105,343,000 increased $6,256,000 as explained in the Consolidated Statement of Source and Application of Funds.

On March 15, 1971, the company issued $35,000,000 8½% Sinking Fund Debentures, Series A with a maturity date of March 15, 1991.

The proceeds of this issue were used to retire the $29,000,000 U.S. bank loans and to provide additional working capital.

Consolidated Statement of Earnings

	1971	1970
	Thousands of dollars	
Sales (Note 2)	569,629	582,163
Sales and excise taxes	242,356	258,166
	327,273	323,997
Operating costs	289,832	288,468
Earnings from operations (Note 2)	37,441	35,529
Income from investments	582	191
Interest expense	(3,847)	(4,610)
Earnings before income taxes	34,176	31,110
Income taxes	16,349	15,154
	17,827	15,956
Minority interest	166	265
Net earnings before extraordinary items	17,661	15,691
Extraordinary items (Note 3)	(122)	—
Net earnings after extraordinary items	17,539	15,691
Earnings per common share		
Before extraordinary items	$1.79	$1.59
After extraordinary items	$1.78	$1.59

Consolidated Statement of Retained Earnings

	1971	1970
Retained earnings, beginning of year	70,648	62,838
Net earnings after extraordinary items	17,539	15,691
Goodwill on consolidation of subsidiaries (Note 1)	(2,995)	203
Dividends (Note 8)	(10,019)	(8,084)
Retained earnings, end of year	75,173	70,648

The attached notes form an integral part of these statements.

Consolidated Balance Sheet

		1971	1970
		Thousands of dollars	
Current assets	Cash and term deposits	861	6,365
	Marketable securities (at market value)	75	69
	Accounts receivable	42,944	36,624
	Notes receivable	4,075	3,976
	Inventories (Note 4)	124,883	125,293
	Prepaid expenses	1,392	1,452
	Total current assets	174,230	173,779
Current liabilities	Bank indebtedness	21,276	32,243
	Accounts payable and accrued liabilities	19,595	19,992
	Income, excise and other taxes	24,950	22,457
	Current portion of long term debt (Note 7)	2,099	—
	Dividends payable	967	—
	Total current liabilities	68,887	74,692
Working capital (net current assets)		105,343	99,087
Other assets	Notes receivable and other investments	11,657	14,973
	Deferred charges	1,254	890
	Fixed assets (Note 6)	56,087	53,508
	Goodwill, trademarks and patents	1	1
	Excess of assets over current liabilities	174,342	168,459
Other liabilities	Long term debt (Note 7)	37,349	34,476
	Deferred income taxes	5,231	5,485
	Minority interest	206	1,467
		42,786	41,428
	Excess of assets over liabilities	131,556	127,031
Shareholders' equity	Capital stock (Note 9)	54,153	54,153
	Capital surplus (Note 10)	2,230	2,230
	Retained earnings	75,173	70,648
		131,556	127,031

Approved by the Board,
Paul Paré, Director
G. G. Ross, Director

The attached notes form an integral part of these statements.

Consolidated Statement of Source and Application of Funds

		1971	1970
		Thousands of dollars	
Source of funds	Net earnings before extraordinary items	17,661	15,691
	Depreciation	4,431	4,132
	Other non-cash items	371	940
	Funds provided from operations	22,463	20,763
	Proceeds from issue of debentures	34,284	—
	Notes receivable	3,316	3,334
		60,063	24,097
Application of funds	Long term debt	32,127	2,158
	Dividends	10,019	8,084
	Fixed assets	6,317	10,299
	Purchase of subsidiaries	5,087	—
	Other	257	119
		53,807	20,660
Working capital	Increase in working capital	6,256	3,437
	Beginning of year	99,087	95,650
	End of year	105,343	99,087

The attached notes form an integral part of these statements.

Notes to the Consolidated Financial Statements

		1971	1970
		Thousands of dollars	
1. Principles of consolidation and related information	The consolidated financial statements include the accounts of Imasco Limited and all subsidiaries. Included are certain automatic vending companies, acquired during 1971 by the Imasco Associated Products Division, from their dates of acquisition.		
	All United States dollar amounts have been translated to Canadian dollars at the exchange rates in effect at year end except for net fixed assets which have been translated at appropriate rates prevailing in the years of acquisition.		
	It is the company's practice to charge directly to retained earnings the excess of the purchase price of the subsidiaries over the value of their net assets at dates of acquisition.		
2. Operations by type of business	Sales		
	Imperial Tobacco Products Division	418,049	435,249
	Imasco Food Division	112,349	112,088
	Imasco Associated Products Division		
	Retail	44,247	39,399
	Wine	6,546	5,925
	Interdivisional elimination	(11,562)	(10,498)
		569,629	582,163
	Earnings from operations		
	Imperial Tobacco Products Division	35,865	32,720
	Imasco Food Division	2,862	3,001
	Imasco Associated Products Division		
	Retail	977	784
	Wine	937	808
		40,641	37,313
	General administration	(2,325)	(1,605)
	Nonrecurring items	(875)	(179)
		37,441	35,529
3. Extraordinary items	Foreign exchange gain realized on repayment of U.S. bank loans	2,294	—
	Unrealized foreign exchange loss on consolidation of U.S. subsidiaries	(1,700)	—
	Cost of debenture issue	(716)	—
		(122)	—
4. Inventories	Inventories by division, valued principally at average cost are:		
	Imperial Tobacco Products Division	89,453	91,223
	Imasco Food Division	27,928	27,295
	Imasco Associated Products Division		
	Retail	4,037	3,835
	Wine	3,465	2,940
		124,883	125,293

Notes to the Consolidated Financial Statements

		1971	1970
		Thousands of dollars	
5. Statutory information	The following items have been charged (credited) before determining net earnings for the year:		
	Depreciation	4,431	4,132
	Interest on long term debt	2,973	3,279
	Deferred income taxes	(296)	1,121
	Remuneration of directors and senior officers Directors, all of whom are officers Number at December 31st: 1971, 9; 1970,10 Number during the year: 1971,10; 1970,12 Officers Number at December 31st: 1971,17; 1970,17 Number during the year: 1971,18; 1970,18 Aggregate remuneration as officers	1,249	1,084
	Pension plans During the year, the company undertook to augment pensions paid to retired employees. The unfunded liability for this augmentation, which is being funded as payments are being made to pensioners, amounted to $1,696 at December 31, 1971. In addition, past service costs of employees' pension plans are being funded and charged to earnings over a period ending in 1990. At December 31, 1971, the unfunded liability for past service costs amounted to approximately $4,511 (1970 $2,913) including the augmentation referred to above.		
	Long term leases The company has outstanding commitments with respect to long term real estate leases with expiry dates extending to 1996. Rental expenses for the year amounted to $2,591 (1970 $2,420), and the minimum annual rental under such leases amounts to approximately $2,240 before giving effect to escalation and percentage of sales clauses in certain of the leases.		
	Other commitments The company has made an offer to purchase those shares of Growers' Wine Company Limited not owned by Imasco Limited for a total consideration of $1,683. At December 31, 1971, the amount outstanding under this offer, which expires March 17, 1972, was $252.		
6. Fixed assets and depreciation	Land	5,242	5,184
	Buildings	38,769	39,274
	Equipment	60,552	53,573
		104,563	98,031
	Accumulated depreciation	48,476	44,523
	Fixed assets	56,087	53,508
	Fixed assets are stated at cost. Depreciation has been calculated on the straight line basis over the estimated useful lives of the assets.		

Notes to the Consolidated Financial Statements

			1971	1970
			Thousands of dollars	
7. Long term debt	Payable in Canadian funds			
	8½% Sinking Fund Debentures Series A due March 15, 1991		35,000	—
	Less purchased		700	—
			34,300	—
	Payable in U.S. funds			
	Bank loans		—	29,321
	Loan, payable in four annual instalments commencing March 31, 1972 bearing interest at New York prime bank rate less 1%		3,955	3,987
	Sundry mortgages and debentures		1,193	1,168
			39,448	34,476
	Less current portion		2,099	—
			37,349	34,476
	Required payments during the next five years including $1,050 annual sinking fund payments on the 8½% sinking fund debentures amount to: 1972 $2,099; 1973 $2,224; 1974 $2,144; 1975 $2,124; 1976 $1,127.			
8. Dividends	On 6% cumulative preference shares		348	348
	On common shares		9,671	7,736
			10,019	8,084
9. Capital stock	6% cumulative preference shares, par value $4.86 ⅔ each			
	Authorized and issued	1,650,000 shares		
	Less purchased and cancelled	458,112 shares		
	Outstanding	1,191,888 shares	5,800	5,800
	Redeemable sinking fund preference shares, par value $25 each			
	Authorized	200,000 shares		
	Issued	Nil		
	Common shares, no par value			
	Authorized	10,800,000 shares		
	Issued	9,670,532 shares	48,353	48,353
			54,153	54,153
10. Capital surplus	Capital surplus consists of amounts transferred from retained earnings as required by the Canada Corporations Act in respect of 6% cumulative preference shares purchased and cancelled.			

Auditors' Report

To the Shareholders of Imasco Limited	We have examined the consolidated balance sheet of Imasco Limited and subsidiary companies as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and application of funds for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. In our opinion, these financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and application of their funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year. **Deloitte, Haskins & Sells** Chartered Accountants 930 Sun Life Building Montreal 110, Canada February 18, 1972
Transfer Agents	Crown Trust Company, Montreal The Royal Trust Company, Halifax, Toronto, Calgary, Vancouver
Registrars	Montreal Trust Company, Halifax National Trust Company, Limited, Montreal, Toronto, Vancouver The Royal Trust Company, Calgary
Stock Exchange Listings	Montreal, Toronto, Vancouver and London, England
Bankers	The Royal Bank of Canada Canadian Imperial Bank of Commerce The Bank of Nova Scotia Bank Canadian National

Statistical Highlights — Ten Year Review*		1971	1970
Sales and earnings	Sales	569,629	582,163
	Depreciation	4,431	4,132
	Earnings before income taxes	34,176	31,110
	Income taxes	16,349	15,154
	Net earnings before extraordinary items	17,661	15,691
	Net earnings after extraordinary items	17,539	15,691
	Earned on common shares before extraordinary items	17,313	15,343
	Per common share (in dollars)	1.79	1.59
Dividend record	On preference shares	348	348
	On common shares	9,671	7,736
	Per common share (in dollars)	1.00	.80
Capital expenditures	On fixed assets	6,642	12,104
Financial position	Current assets	174,230	173,779
	Current liabilities	68,887	74,692
	Working capital	105,343	99,087
	Investment in non-consolidated subsidiaries including loans and advances	—	—
	Fixed assets (before depreciation)	104,563	98,031
	Fixed assets (less depreciation)	56,087	53,508
	Long term debt	37,349	34,476
	Excess of assets over liabilities	131,556	127,031
Shareholders' equity	Preference shareholders	5,800	5,800
	Common shareholders	125,756	121,231
	Per common share (in dollars)	13.00	12.54

* 1962/68 revised in accordance with 1969 presentation.
**1966 and 1968 revised to include subsidiaries not consolidated in those years.

1969	1968**	1967	1966**	1965	1964	1963	1962
				(Thousands of dollars, except 'per common share' statistics)			
512,987	421,265	393,315	373,069	366,262	351,456	355,065	373,392
4,371	4,075	4,135	3,835	3,486	3,372	3,327	3,237
26,016	24,730	25,237	24,637	26,778	23,807	23,416	26,261
12,540	12,207	11,656	11,624	12,832	11,228	10,391	12,923
13,383	12,465	13,581	13,013	13,946	12,579	13,025	13,338
12,226	12,646	13,581	13,013	13,946	12,579	13,025	13,338
13,035	12,112	13,215	12,619	13,533	12,156	12,577	12,856
1.35	1.25	1.37	1.30	1.40	1.26	1.30	1.33
348	353	366	394	413	423	448	482
7,736	7,736	7,736	8,461	7,253	7,011	7,252	7,737
.80	.80	.80	.87½	.75	.72½	.75	.80
4,033	4,404	5,187	8,451	3,491	2,740	5,197	4,146
167,818	125,562	124,295	115,964	120,765	124,015	121,674	123,304
72,168	36,465	32,507	27,786	31,300	28,815	26,911	28,598
95,650	89,097	91,788	88,178	89,465	95,200	94,763	94,706
—	17,855	14,821	13,425	13,077	—	—	—
89,360	81,257	78,044	75,215	67,076	64,928	64,725	61,199
47,056	40,221	38,845	38,198	33,195	33,808	34,769	33,699
36,956	2,261	2,261	2,261	2,262	7,035	8,582	9,987
119,221	139,746	137,929	133,366	129,643	123,966	119,142	114,901
5,800	5,830	5,973	6,518	6,766	6,973	7,215	8,030
113,421	133,916	131,956	126,848	122,877	116,993	111,927	106,871
11.73	13.85	13.65	13.12	12.71	12.10	11.57	11.05

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Imasco Limited Interim Report

To our Shareholders

Net earnings for the first half of 1971 were up over the first six months of last year, but sales were somewhat lower.

Earnings

Consolidated earnings at $7,850,000 or 79 cents a common share, showed an increase of $762,000 or 11% over the same period last year. Earnings for the second quarter were $4,143,000 or 42 cents a common share compared with $3,570,000 or 36 cents a common share last year.

Sales

Consolidated sales of $267,517,000 were down $23,423,000 or 8% compared with the first half of 1970. Second quarter sales were $139,044,000 compared with $148,421,000 in last year's second quarter, a decrease of 6%.

The following is an analysis of consolidated sales by type of business.

Sales analysis	1971	1970	Inc. (Dec.)
	Thousands of dollars		
Tobacco	199,531	221,343	(21,812)
Food	53,349	53,253	96
Wine	2,888	2,589	299
Retail	19,335	18,704	631
Intercompany eliminations	(7,586)	(4,949)	(2,637)
	267,517	290,940	(23,423)

The increase in consolidated earnings came principally from improved earnings in the tobacco, retail and wine operations. The decline in sales in the tobacco division resulted from the voluntary withdrawal of incentives by the industry in June 1970, a segment of the market in which your Company held the dominant position. However, our overall position in the tobacco industry remains strong.

Several new products have been introduced to meet the changing tastes of Canadian smokers. *Vintos*, a new wine-dipped, filter tipped little cigar, and *Borkum Riff*, an imported Swedish pipe tobacco, were introduced to selected test markets in the first half of the year and their reception has been enthusiastic. *Millbank*, a new king size, filter tipped cigarette, was introduced in London, Ontario, in July. *Colts*, a tipped, wine-flavoured cigarillo which was test-marketed last fall has now been marketed across Canada and its success has been outstanding. It has proved a worthy member of the *Old Port* family, Canada's most popular cigars. *Tic Tac*, a new product introduced by the food division in August of last year, has also been a great success. These mint-candies are now distributed in the US and Canada and demand for them continues to increase.

Food division sales are showing a satisfactory improvement, but the decline of approximately 5% in the US exchange rate since 1970 has reduced the increase to $96,000.

Earnings in the food division are still affected by start-up costs at the new plant in Vineland, New Jersey. However, our Canadian food company, Pasquale Bros. Limited, has shown commendable progress in growth of sales and earnings.

Retail and wine sales continue to show improvement. The continuing upward trend in United Cigar Stores, Limited has been a noteworthy achievement. This company has expanded its operations with the acquisition of Amco Services Ltd, a Vancouver-based vending machine company. Retail sales include the results of Amco Services since May 1st, the date of acquisition.

Working Capital increased $6,609,000 during the period. The major factors involved were the issue of $35,000,000 principal amount of 20-year debentures at 8½% which yielded $34,335,000 after deduction of the underwriters' commission. The proceeds of the issue, after retiring US $29,000,000 long term debt increased the working capital by some $4,000,000.

Legislation

Two pieces of anti-smoking legislation were introduced in Canada in the first half of the year. In March, the British Columbia government passed a law banning all advertising of tobacco products. The act is to come into effect on September 1st.

On June 10th, the Federal Minister of Health introduced Bill C-248, an act to ban all cigarette "promotions". It is proposed that the Bill become effective on January 1, 1972, but it has yet to be debated in the House of Commons.

We regret these restrictions on our marketing activities, but we are confident that the six million Canadians who now enjoy tobacco will continue to do so, and by providing them with first quality products we shall continue to prosper.

Outlook

Pressure on manufacturing costs continues. A wage increase, effective July 1, 1971, was a provision of the two-year contract signed with the Tobacco Workers International Union last year. Your Company is exerting every effort to keep costs down by increasing efficiency through technological improvements. In June we announced the phase-out of our plant at Delhi, Ontario, and plans to concentrate all leaf processing at the more modern and efficient Aylmer plant.

Margins in the food industry in North America show signs of recovery and the stability of sales in our food division during this period gives us grounds to expect improvements in the coming year. The UCS division, including Growers' Wine Company Limited, expects a more profitable 1971.

In general, the results of the first half of 1971 are a good indication of our expectations for the full year and sales for the second half should exceed those of the same period last year.

Paul Paré

President

Montreal, August 3rd, 1971

Imasco Limited
and Subsidiary Companies
Six months January to June

Consolidated Statement of Earnings

	1971	1970
	Thousands of dollars	
Sales	267,517	290,940
Sales and excise taxes	113,660	130,839
	153,857	160,101
Operating costs	136,906	143,174
Earnings from operations	16,951	16,927
Income from other investments	484	87
Interest expense	(2,182)	(2,702)
Earnings before income taxes	15,253	14,312
Income taxes	7,348	7,085
	7,905	7,227
Minority interest in earnings of subsidiary companies	55	139
Net earnings	7,850	7,088
Per common share	.79	.71

Subject to year end audit and adjustment

Imasco Limited
and Subsidiary Companies
Six months January to June

Consolidated Statement of Source and Application of Funds

			1971	1970
			Thousands of dollars	
Source of funds	Operations:			
	Net earnings		7,850	7,088
	Non cash charges:			
	Depreciation		2,291	2,030
	Deferred income taxes		245	209
	Deferred charges		46	342
	(Profit) loss on disposal of fixed assets		81	(164)
	Minority interest		55	139
	Funds provided from operations		10,568	9,644
	Sale of fixed assets		51	507
	Notes receivable		3,150	6,437
	Debentures issued	34,335		
	Less current portion	1,050	33,285	—
	Foreign exchange adjustment		97	—
			47,151	16,588
Application of funds	Dividends		5,406	4,526
	Dividends to minority shareholders of subsidiaries		6	6
	Fixed assets		4,061	3,809
	Long term debt retirement		29,537	1,524
	Purchase of subsidiary		1,500	—
	Working capital deficiency of subsidiary acquired		32	—
			40,542	9,865
	Increase in working capital		6,609	6,723

Subject to year end audit and adjustment